REMARKS

Original claims 1-20 appear in this application. Claims 21-25 have been added to this application at this time.

Applicants acknowledge the examiner interview, which was held on September 10, 2003. The opportunity to meet to discuss the present rejections is appreciated. The Interview Summary issued by the Examiner states that a statement of the substance of the interview is to be submitted by the Applicants.

In response, Applicants submit that during the examiner interview, all pending claims were generally discussed without any specificity in view of a draft response that was sent to the examiner before the interview. In the discussions, the primary reference cited in the Office Action, specifically Cooperstein (U.S. Patent No. 5,893,071) and known systems and methods in this general field of art, were discussed. Patentability of the pending claims over the cited art was explained by the Applicants, including the basis of non-obviousness in view of the combination of primary and secondary considerations at hand. There was no definitive outcome that resulted from the examiner interview. As part of the interview, no potential amendments to the claims were discussed, although an affidavit was suggested.

In the Office Action dated June 4, 2003, claims 1-13 are rejected under 35 U.S.C. §112, second paragraph. The rejection states that it is unclear if the term "system" in claims 1-13 refers to a "method" or an "apparatus." Applicants respectfully traverse this rejection.

Applicants note that claims 1-13 are directed toward systems for administrating variable annuity contracts. The term "system" in this context and in the context of the specific language recitations of the claims are well known and will be understood by one skilled in the art to place the claim in the statutory category of an "apparatus" with appropriate language as to how the apparatus operates. Reconsideration and withdrawal of the rejection are respectfully requested.

In the Office Action, claims 1-20 are rejected under 35 U.S.C. §103(a) as being unpatentable in view of Cooperstein (U.S. Patent No. 5,893,071). As discussed in detail below, claims 1-20 are not obvious in view of Cooperstein because all the features of claims 1-20 are not shown or suggested by Cooperstein. Applicants therefore respectfully traverse this rejection.

Independent claim 1 recites a system including, among other things:

> "memory means for storing data relating to at least one variable annuity contract of a contractowner, said at least one variable annuity contract having <u>an associated bonus investment credit percentage</u>, associated withdrawal charge percentages for each of a plurality of contract years, each withdrawal charge percentage <u>being less than or equal to said bonus investment credit percentage</u>, and <u>an asset-based compensation constant</u> over all contract years." (emphasis added).

Independent claim 14 recites a method of administering variable annuity contracts including, among other things:

> "storing data relating to at least one variable annuity contract of a contractowner in a memory means, said at least one variable annuity contract having <u>an associated bonus investment credit percentage</u>, associated withdrawal charge percentages for each of a plurality of contract years, each withdrawal charge percentage <u>being less than or equal to said bonus investment credit percentage</u>, and <u>an asset-based compensation percentage constant</u> over all contract years." (emphasis added).

In the rejection, the Examiner concedes that Cooperstein does not disclose each and every claimed feature of the claimed invention. The Examiner therefore relies on official notice in an effort to meet these deficiencies. In particular, the Examiner takes official notice that:

> "[a] bonus investment credit offered by institutions for investing in their financial products such as annuities and mutual funds is old and well known in the art. Such credits that are computed as a percentage of the investment provide an incentive for the buyers to invest in the products of institutions. The bonus investment credit percentage could be any value determined by the institution including a value greater than or less than or equal to the withdrawal charge percentage in the first year. Official notice is also taken that providing an asset-based compensation percentage constant over all contract years is old and well known in the art. Such compensation helps the institution defray the administrative costs and the annuity holder benefits from the disclosure and the fact that the he/she is charged more only if the investments grow."

Applicants' respectfully note that there is no motivation or suggestion in Cooperstein or, to the Applicants' knowledge, in any other reference in this field of

art, to modify the system of Cooperstein to specify a bonus investment credit, an asset-based compensation over a period of time, and withdrawal charges that are less than or equal to the bonus investment credit, let alone the unique combination and relationship of these features as recited in the independent claims of the present application. For claims 1 and 14 to be obvious in view of Cooperstein, there must be some suggestion or motivation found in the prior art to modify the reference to arrive at the presently claimed systems and methods. This motivation or suggestion should not be found in hindsight with the benefit of Applicants' disclosure. See M.P.E.P. §2142. As this motivation is lacking, the present rejection should be withdrawn.

Cooperstein describes computer-implemented system for determining certain annuity contract component data. However, and as recognized by the examiner, Cooperstein is silent as to the combination, let alone relationship, of the bonus investment credit, the asset-based compensation, and the withdrawal charges as claimed. Applicants are aware of no similar annuity system or method that includes the combination of these features as claimed.

In contrast with the suggestion and official notice of the Examiner, Applicants respectfully submit that the prior art and the known and conventional practice in the relevant art does not teach or disclose a system or method that includes the combination of "an associated bonus investment credit percentage, associated withdrawal charge percentages for each of a plurality of contract years, [wherein] each withdrawal charge percentage [is] less than or equal to said bonus investment credit percentage, and an asset-based compensation percentage constant over all contract years." Indeed, Applicants respectfully submit that such a system or method is counterintuitive, and thus non-obvious, because it would increase the financial risk to the issuer, which is contrary to a primary goal of an annuity issuer -- to decrease and minimize risk and financial volatility. Risk is increased by the system and method of the invention, for example, because surrender of the contract by the annuitant in the first year will, at a minimum, cost the annuity issuer any compensation paid to the seller of the annuity. The asset-based compensation cannot be recouped by the annuity issuer through the withdrawal charge because the withdrawal charge is structured to be less than or equal to the bonus investment credit, which is an amount that is insufficient to recoup both the bonus investment credit and the asset-based compensation. Thus, upon surrender, the issuer of the annuity can only recoup the bonus investment credit, but not the compensation. For example, in a

one million dollar investment to purchase an annuity with a bonus investment credit of 5%, a withdrawal charge in the first year of 5%, and an asset-based compensation over all contract years that includes an asset-based compensation of 3% on initial premium at issue, the annuity issuer risks losing the 3% compensation paid on initial premium (i.e., $30,000) if the policy holder lapses the annuity contract in the first year.

This unique combination of features, as claimed, is contrary to known conventional annuities wherein the withdrawal charge is structured to recoup the asset-based compensation, which is paid by the issuer to the seller, and also recoup the bonus investment credit from the annuitant's contribution. That is, and in contradistinction with the official notice of the Examiner, conventional annuities teach techniques in which the issuer essentially achieves a zero sum exchange on surrender by a contractowner. As such, the claimed inventions of claims 1 and 14 are not disclosed by and cannot be obvious in view of Cooperstein in combination with selected features from conventional annuities. Applicants respectfully submit that it is inappropriate to take official notice of such a non-obvious combination of features.

The non-obviousness of the system of claim 1 and the method of claim 14 is further evidenced in that, to the Applicants' knowledge, there has never been an annuity that has combined a bonus investment credit with asset-based compensation percentage constant over the contract years, let alone with a withdrawal charge that is less than or equal to the bonus investment credit. See paragraph 7 of the Declaration of Charles G. Fisher (attached). Applicants submit that the lack of such a product over such a period of time is evidence of the non-obviousness of the pending claims over the prior art.

In further support of the claimed invention, it is noted that the Guardian Life Insurance Company of America ("Guardian"), the owner of the present application, as part of its product line, offers what is referred to as a C+C Annuity. The C+C Annuity includes, among other things, a bonus investment credit, an asset-based compensation percentage constant over all contract years, and a withdrawal charge that is equal to or less than the bonus investment credit. The C+C Annuity was placed on the market in October 2000, and continues to be a successful product, which is responsible for a significant portion of Guardian's revenues to this day. It is respectfully submitted that the revenues gained by Guardian as a result of the C+C Annuity are indicative of the non-obviousness of the claimed invention. Clearly,

those involved in offering annuities in the annuity market have as a goal to increase their revenues through their product offerings. As such, if one of ordinary skill in the art of annuity market knew, understood, or had discovered the commercial benefit of the system of claim 1 or the method of claim 14 before Applicants' invention, then such a product would have offered or publicized, which to the Applicant's knowledge has never occurred. See, paragraph 7 of the attached declaration of Charles G. Fisher.

Furthermore, the system and method of the present invention overcome deficiencies in known variable annuity products. In conventional variable annuities, wherein a bonus investment credit is offered and an up-front compensation is paid to the seller, a sufficiently large withdrawal charge is structured so as at least to equal the total of both the bonus investment credit and the compensation paid to the seller. Increasing the withdrawal charge is known to be the standard technique by which annuity issuers recover the bonus investment credit and the seller's up-front compensation from the contractowner for early surrender. The present invention, as defined in independent claims 1 and 14, operates to the contrary of these conventional techniques by combining a bonus investment credit with withdrawal charges, which are less than or equal to the bonus investment credit and an asset-based compensation that is paid over a number of years. This unique combination provides an advantage that was not realized by the prior art in that it provides the contractowner with the opportunity to invest in an annuity that includes a bonus investment credit without having to face the risk of a larger than normal withdrawal charge if a partial withdrawal from the contract or a surrender is required.

For example, in a conventional annuity with a bonus investment credit of 3% and an up-front compensation of 6% to the seller, the withdrawal charge would typically be 9% or more in the first year. As such, in the case of a partial withdrawal by the contractowner in the first year, the contractowner would face a 9% withdrawal charge. By contrast, the system and method of the present invention, such as the C+C Annuity, has withdrawal charges of 3%, 2%, 1% and 1% in years 1 thru 4 respectively. Thus, if a partial withdrawal by the contractowner is made in the first year, the contractowner would only pay a 3% withdrawal charge.

Withdrawal charges for C-share annuities, which is a type of annuity that is known to those skilled in the art, are typically lower than annuities having a bonus investment credit because the compensation for the seller is not paid up-front, but rather over time. The lower withdrawal charges are more appealing to consumers.

However, such conventional asset-based compensation products are not known to be offered with a bonus investment credit because the addition of a bonus investment credit would work contrary to the low-withdrawal-charge appeal of annuities having asset-based compensation over contract years. This is because conventional techniques teach that the withdrawal charge for the annuity would have to be raised to cover the compensation for the seller and the bonus investment credit to protect the issuing insurance company in case of the surrender of the contract. The present invention as defined in independent claims 1 and 14 overcomes these deficiencies and is structured contrary to conventional teachings mentioned above, by setting the withdrawal charges to be equal to or less than the bonus investment credit for an annuity that has asset-based compensation over the contract years and a bonus investment credit, thus keeping the character of the C-Share annuity essentially the same.

For example, the C+C Annuity contract of the assignee, which as mentioned above was part of the filed patent application, has withdrawal charges of 3%, 2%, 1% and 1% in years 1 thru 4 respectively. Therefore in the first year, there would be a withdrawal charge of 3% of the amount withdrawn or surrendered. According to the C+C Annuity contract, the bonus investment credit of the C+C Annuity will credit 3% of the first year premium to the account value of the annuity. If the contract was surrendered within the first year, the 3% withdrawal charge is paid directly from the account value of the contract at the time of surrender. Because the account value of the contract includes the 3% bonus investment credit, the withdrawal charge would be paid from the 3% bonus investment credit that was originally credited to the contract. This would allow the contractowner to get back his entire investment if he surrendered the contract in the first year, i.e., the net withdrawal charge in the first year would be 0%. Therefore, the present invention retains the consumer-friendly aspects of a C-share annuity while providing a bonus investment credit.

Applicants respectfully submit that independent claims 1 and 14 are not obvious in view of Cooperstein at least because of the increases in the financial risk to the annuity issuer, a feature which is completely contrary to the beliefs and established procedures in the art. In addition, the pending claims define products that satisfy the long felt need existing in the annuity market for new annuity products that are different from existing products and benefit consumers. Also, the ability of the system to retain the character of a C-share annuity from the consumer's view point

while having the advantage of a withdrawal charge that is much lower than what would be set by conventional teachings, supports the patentability of that claim. Official notice of the unique combination of features that accomplish these advantages is inappropriate without some suggestion or motivation disclosed in the art. Reconsideration and withdrawal of the rejection of independent claims 1 and 14 are requested.

Claims 2-13 and 15-20, which depend from claims 1 and 14, respectively, are allowable at least for the reasons set forth above regarding the independent claims. Additionally, the dependent claims recite further features not disclosed or known in the prior art, particularly when considered in combination with the unique features of claims 1 and 14, respectively. Although the Examiner suggests that these additional features are inherent from Cooperstein, Applicants respectfully disagree. Reconsideration and withdrawal of the rejection of the dependent claims are requested.

Finally, and by this Amendment, Applicants add new claims 21-23. Each of the newly added claims is directed to a method of administering variable annuity contracts, including, among other things, structuring seller compensation for the variable annuity contract on an asset-basis to be paid incrementally over a period of time, assigning a bonus investment credit for the variable annuity contract, and limiting withdrawal charges to less than or equal to the bonus investment credit. Support for the new claims is set forth in Figure 2 and the corresponding disclosure of the present application. As such, no new matter has been added and no new search is required. Applicants respectfully submit that each of the newly added claims is allowable at least for the reasons set forth above with regard to claims 1-20.

For the foregoing reasons, Applicant submits that all of the claims are patentable over the cited art and respectfully requests an early indication of allowance. The Examiner is invited to contact the undersigned if any additional information is required.

Respectfully submitted,

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